

**Colonial Gas Company**  
**Return on Average Common Equity**

(000 omitted)

	1996	1997	1998	1999	2000	2001	2002	2003
<b>Net Income Calculation:</b>								
Utility Operating Income DTE page 10, Line 18	22,158	22,890	20,900	19,054	18,979	23,124	33,839	33,821
Add: Amortization of Acquisition Premium	-	-	-	2,008	6,576	9,366	-	422
Add: service quality penalties	-	-	-	-	-	-	-	(123)
Less: Allocated Interest(See Below)	(8,148)	(7,176)	(7,820)	(12,002)	(19,597)	(24,722)	(25,193)	(24,032)
<b>Net Utility Income Available for Common Shareholders</b>	<b>14,010</b>	<b>15,714</b>	<b>13,080</b>	<b>9,060</b>	<b>5,958</b>	<b>7,768</b>	<b>8,646</b>	<b>10,088</b>

**Calculation of Allocated Interest:**

DTE page 10, Lines 39 and 48	8,272	7,441	7,928	12,006	19,602	24,727	25,198	24,032
DTE page 8, Line 2	333,319	362,742	394,222	631,589	772,841	813,978	835,426	855,683
DTE page 8, Line 8	5,062	13,406	5,429	1,871	1,397	1,039	387	4
<b>Total</b>	<b>338,381</b>	<b>376,148</b>	<b>399,651</b>	<b>633,460</b>	<b>774,238</b>	<b>815,017</b>	<b>835,813</b>	<b>855,686</b>
% of Line 2 to Total	0.9850	0.9644	0.9864	0.9970	0.9982	0.9987	0.9995	1.0000
DTE page 8, line 4 (Capital Leases)	-	-	-	(1,667)	(1,193)	(868)	(216)	-
<b>Total</b>	<b>338,381</b>	<b>376,148</b>	<b>399,651</b>	<b>631,793</b>	<b>773,045</b>	<b>814,149</b>	<b>835,597</b>	<b>855,686</b>
% of Line 2 to Total + Capital Leases	0.9850	0.9644	0.9864	0.9997	0.9997	0.9998	0.9998	1.0000
Allocated Interest(Line 27 above times Line 38)	8,148	7,176	7,820	12,002	19,597	24,722	25,193	24,032

**Total Utility Common Equity:**

Proprietary Capital - DTE page 9,Line 13	113,906	130,132	128,922	225,896	210,414	269,421	266,174	427,343
Less preferred: DTE Page 9, Line 4	-	-	-	-	-	-	-	-
Less: Unamortized Acquisition Premium	-	(2,589)	(2,589)	(239,045)	(371,850)	(377,292)	(377,292)	(377,292)
Add back: Push down Debt(NOTE A)	-	-	-	100,000	250,000	200,000	214,000	64,000
<b>Total Equity</b>	<b>113,906</b>	<b>127,543</b>	<b>126,333</b>	<b>86,851</b>	<b>88,564</b>	<b>92,129</b>	<b>102,882</b>	<b>114,051</b>
% Above	0.9850	0.9644	0.9864	0.9997	0.9997	0.9998	0.9998	1.0000
Ending Utility Common Equity	113,906	127,543	126,333	86,823	88,541	92,110	102,861	114,050
Beginning Utility Common Equity	105,070	113,906	127,543	126,333	86,823	88,541	92,110	102,861
<b>Total</b>	<b>218,976</b>	<b>241,449</b>	<b>253,876</b>	<b>213,156</b>	<b>175,364</b>	<b>180,650</b>	<b>194,971</b>	<b>216,911</b>
<b>Average Common Equity</b>	<b>109,488</b>	<b>120,725</b>	<b>126,938</b>	<b>106,578</b>	<b>87,682</b>	<b>90,325</b>	<b>97,485</b>	<b>108,456</b>

<b>NET UTILITY INCOME DIVIDED BY AVERAGE EQUITY</b>	<b>12.80%</b>	<b>13.02%</b>	<b>10.30%</b>	<b>8.50%</b>	<b>6.80%</b>	<b>8.60%</b>	<b>8.87%</b>	<b>9.30%</b>
<b>ALLOWED RETURN ON EQUITY PER DPU 93-78 (NOTE C)</b>	<b>11.19%</b>	<b>11.19%</b>	<b>11.19%</b>	<b>11.19%</b>	<b>11.19%</b>	<b>11.19%</b>	<b>11.19%</b>	<b>11.19%</b>
<b>VARIANCE</b>	<b>1.61%</b>	<b>1.83%</b>	<b>-0.89%</b>	<b>-2.69%</b>	<b>-4.39%</b>	<b>-2.59%</b>	<b>-2.32%</b>	<b>-1.89%</b>

Note A: The Department letter dated April 3, 2003 did not consider adding back the unamortized acquisition premium supported by the push-down debt. Without this add back, equity would be negative. Therefore we have deducted only the equity portion from the unamortized acquisition premium.

NOTE B: The Company has interpreted footnote 6 in the Department's letter of April 3, 2003 to mean that the equity will be multiplied times the ratio of the utility plant to the total of utility plant and other property. The Company believes that the Department intended gas companies to exclude amounts not supported by proprietary capital, which would result in the exclusion of capital leases from proprietary capital.

NOTE C: According to the settlement in D.P.U. 93-78, the parties would not agree on an appropriate rate of return on common equity. However, the parties did agree that a rate of 11.19 percent would be used solely for the purpose of calculating (1) the allowance for funds used during construction, (2) the carrying costs associated with the unamortized demand side management expenditures, and (3) the purchased gas working capital allowance, the remediation adjustment clause value, and any other components of the Cost of Gas Adjustment Clause ("CGAC"). D.P.U.93-78 page 4.